

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 DODE-00 PM-04

H-02 L-03 NSC-05 PA-02 PRS-01 SS-15 /109 W

-----030607 211916Z /44

R 211809Z JUN 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9218

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JUNE 20)

REF.: BONN 10215, BONN 9985

1. TAX REVENUES CONTINUE TO RISE RAPIDLY:
FEDERAL AND STATE TAX REVENUES IN MAY EXCEEDED COMPAR-
ABLE 1976 LEVELS BY 14 PERCENT. CUMULATIVE FIGURES FOR
THE FIRST FIVE MONTHS OF THE YEAR SHOW A GAIN OVER
JANUARY/MAY 1976 RESULTS OF 13 PERCENT. THE YEAR-TO-
YEAR RISE SO FAR IN 1977 HAS BEEN CONSIDERABLY FASTER
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THAN WAS PREVIOUSLY ANTICIPATED. THE LATEST OFFICIAL
TAX REVENUE ESTIMATES PLACE PROBABLE GROWTH THIS YEAR
AT 11 PERCENT.

2. \$500 MILLION CREDIT TO COMECON BANK:
ACCORDING TO THE FINANCIAL PRESS, ON JUNE 15 THE DRES-
DNER BANK, LEADING AN INTERNATIONAL BANKING CONSORTIUM,

FINALIZED THE CONTRACT ON A \$500 MILLION CREDIT GRANTED TO THE INTERNATIONAL INVESTMENT BANK, MOSCOW, A JOINT BANK OF THE COMECON COUNTRIES. REPORTEDLY THE ORIGINAL VOLUME OF THE CREDIT WAS \$400 MILLION BUT WAS RAISED TO \$500 MILLION BECAUSE THE CREDIT WAS "JUDGED VERY ATTRACTIVE" BY THE CONSORTIUM. THE CREDIT MATURES IN 1984 AND THE INTEREST RATE IS 1 1/8 PERCENT TO 1 1/4 PERCENT ABOVE LIBOR. ACCORDING TO PRESS ACCOUNTS, THE CREDIT WILL PROVIDE ADDITIONAL FINANCING FOR THE CONSTRUCTION OF THE ORENBURG LONG-DISTANCE GAS PIPELINE AND FOR UNSPECIFIED IMPORTS FROM WESTERN COUNTRIES. IN MID-1976 AN INTERNATIONAL BANKING CONSORTIUM ALSO LEAD BY THE DRESDNER BANK GRANTED A \$600 MILLION CREDIT TO THE INTERNATIONAL INVESTMENT BANK.

3. IFO ECONOMIC RESEARCH INSTITUTE ANTICIPATES 4 PERCENT REAL GROWTH OF INDUSTRIAL INVESTMENT FOR 1977: IN A SURVEY, CONDUCTED IN MARCH/APRIL AND COMPRISING 4,000 INDUSTRIAL ENTERPRISES WHICH TOGETHER ACCOUNT FOR ABOUT 55 PERCENT OF TOTAL INVESTMENTS BY FRG INDUSTRY, THE IFO ECONOMIC RESEARCH INSTITUTE FOUND CONFIRMATION OF EARLIER SURVEY RESULTS POINTING TO A GRADUAL LET-UP OF THE INVESTMENT LETHARGY EVIDENT FOR YEARS (SEE A-129). FOLLOWING GROWTH OF GROSS FIXED INVESTMENT BY GERMAN MANUFACTURERS IN 1976 OF 5.3 PERCENT NOMINALLY AND 2 PERCENT REAL, IFO - ON THE BASIS OF CURRENT PLANS UNCLASSIFIED

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AS REFLECTED IN THE RECENT SURVEY RESULTS - ANTICIPATES AN 8 PERCENT NOMINAL AND 4 PERCENT REAL GAIN IN 1977. DESPITE THE UPWARD REVISION OF INVESTMENT PLANS UNDERLYING THESE ESTIMATES, IFO SEES AS YET NO BREAKTHROUGH IN INVESTMENT PROPENSITY IN GERMAN INDUSTRY. INVESTMENT PLANS CONTINUE TO BE AIMED PRIMARILY AT REPLACEMENT OF OUTMODED EQUIPMENT AND RATIONALIZATION. POINTING TO CONTINUED LOW CAPACITY UTILIZATION (SEE BONN 10215), IFO EMPHASIZED THAT THE NUMBER OF FIRMS PLANNING EXPANSION-TYPE OUTLAYS CONTINUES UNUSUALLY LOW, I.E., AT ABOUT 25 PERCENT OF THOSE SURVEYED.

4. MONEY MARKET:

GERMAN CALL MONEY RATES INCREASED DURING THE PERIOD UNDER REVIEW. MAJOR FACTORS IN THIS REGARD WERE THE MAJOR MID-JUNE TAX DATE, THE FEDERAL GOVERNMENT'S SALE OF DM 2.0 BILLION IN FEDERAL NOTES (KASSEN Obligationen)

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AND GREATER DEMAND FOR CASH DUE TO THE START OF THE
SCHOOL VACATIONS IN SOME OF THE LAENDER, .
ONE AND THREE MONTH RATES, HOWEVER, REMAINED STABLE.
FOR THE PERIOD JUNE 14-20, FRANKFURT INTERBANK RATES
WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JUNE 14	3.5-3.7	4.10	4.20
15	3.5-3.6	4.10	4.20
16	3.7-3.9	4.10	4.20
17	GERMAN HOLIDAY		
20	4.0-4.3	4.10	4.20

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5. FOREIGN EXCHANGE MARKET:
FRANKFURT SPOT AND FORWARD DOLLAR RATES FOR THE PERIOD

JUNE 14-21 DEVELOPED AS FOLLOWS:

	FORWARD DOLLARS				
	SPOT DOLLARS (IN PCT. PER ANNUM)				
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MOS
JUNE 14	2.3556	2.3558	2.3565	-1.7	-1.9
15	2.3560	2.3564	2.3560	-1.5	-1.7
16	2.3555	2.3550	2.3541	-1.7	-1.8
17	GERMAN HOLIDAY				
20	2.3570	2.3566	2.3590	-1.9	-1.9
21	2.3595	2.3602	N.A.	N.A.	N.A.

6. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JUNE 1-7 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.1 BILLION TO DM 85.2 BILLION. CREDITS TO MONETARY AUTHORITIES INCREASED BY DM 377 MILLION. THIS PROBABLY REFLECTS ADDITIONAL CREDIT TO ITALY UNDER THE \$2 BILLION GOLD SECURED CREDIT LINE EXTENDED BY THE BUNDESBANK. BASICALLY IN CONNECTION WITH THIS TRANSACTION FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 389 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION FELL BY DM 13 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 130 MILLION.

7. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 2.4 BILLION. MAJOR FACTORS INCREASING LIQUIDITY WERE A DM 5.6 BILLION DECLINE IN BUNDESPOST ASSETS HELD AT THE BUNDESBANK AND FEDERAL GOVERNMENT BORROWINGS AT THE BUNDESBANK OF DM 2.1 BILLION. THE USUAL DECLINE UNCLASSIFIED

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IN CURRENCY IN CIRCULATION IN THE FIRST WEEK OF A MONTH (DM 0.9 BILLION) AND RETURNS OF DM 0.4 BILLION OF MONEY MARKET PAPER TO THE BUNDESBANK FURTHER ADDED TO LIQUIDITY. THE ONLY MAJOR FACTOR REDUCING LIQUIDITY WAS A DM 1.0 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. ON JUNE 7 RESERVES AMOUNTED TO DM 50.4 BILLION. ON AVERAGE PER DAY IN THE PERIOD JUNE 1-7 BANK RESERVES WERE DM 50.6 BILLION WHICH IS SUBSTANTIALLY ABOVE EXPECTED JUNE RESERVE REQUIREMENTS. THE BANKS INCREASED RESERVES ABOVE REQUIREMENT IN PREPARATION OF THE MAJOR MID-JUNE TAX DATE THE FULL EFFECTS OF WHICH IMPACTED ON THE BANKS THE BEGINNING OF THIS WEEK (SEE PARAGRAPH ON MONEY MARKET). OTHER, BASICALLY UNIDENTIFIED FACTORS REDUCED LIQUIDITY BY DM 5.6 BILLION, NET.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REPAY DM 3.1

BILLION OF BORROWINGS FROM THE SPECIAL REDISCOUNT FACILITY. THUS, ON JUNE 7 OUTSTANDING BORROWINGS UNDER THIS FACILITY WERE ONLY A DM 89 MILLION. (THE SPECIAL REDISCOUNT FACILITY, WHICH ALLOWED BANKS TO BORROW FROM THE BUNDESBANK FOR A PERIOD OF 10 DAYS, TERMINATED MAY 31 (SEE BONN 8585) AND HAD TO BE REPAID BY JUNE 10.) THE

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BANKS ALSO REDUCED LOMBARD BORROWINGS BY DM 0.1 BILLION TO ONLY DM 60 MILLION. AT THE SAME TIME THEY INCREASED REDISCOUNT BORROWINGS BY DM 0.8 BILLION TO DM 17.7 BILLION. ON JUNE 7, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 17.8 BILLION AS COMPARED WITH DM 20.2 BILLION ON MAY 31.

8. SALE OF MEDIUM-TERM FEDERAL NOTES:
ON JUNE 14 THE BUNDESBANK SOLD DM 2.0 BILLION OF MEDIUM-TERM FEDERAL NOTES (SEE BONN 9985). DM 1.0 BILLION OF THESE WERE THREE-YEAR NOTES CARRYING A 5.25

PERCENT COUPON AND A YIELD OF 5.40 PERCENT. ANOTHER
DM 1.0 BILLION WERE FOUR-YEAR NOTES WITH A COUPON OF
5.50 PERCENT, AND A YIELD OF 5.73 PERCENT. REPORTEDLY,
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BIDS RECEIVED AMOUNTED TO ABOUT DM 5 BILLION BUT THE
BUNDESBANK ACCEPTED ONLY THOSE BIDS 0.20 POINTS OR MORE
ABOVE MINIMUM PRICES OF 99.6 AND 99.2 FOR THE 3 AND 4
YEAR ISSUES, RESPECTIVELY.

9. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS THE RECENT PRICE IN-
CREASES WHICH BEGAN AROUND JUNE 8-10, CONTINUED DURING
THE PERIOD UNDER REVIEW. IT NOW SEEMS THAT THE MARKET
HAS OVERCOME A PERIOD OF WEAKNESS WHICH HAS PREVAILED
SINCE EARLY MAY.

ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF OUT-
STANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING
MATURITIES ARE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	7	9	10
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JUNE 16	4.75	5.50	6.05	6.40	6.60	6.70
JUNE 10	4.80	5.65	6.20	6.45	6.70	6.80

ON THE MARKET FOR FOREIGN DM BONDS THE CANADIAN PROVINCE
OF MANITOBA HAS ISSUED A DM 150 MILLION LOAN (COUPON
6 3/4 PERCENT, MATURITY 7 YEARS).

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL (1))

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FEB	MAR	APRIL	MAY
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INDUSTRIAL PRO-

DUCER PRICES 3.8 3.7 3.4 3.0
RETAIL SALES,

VALUE	4.4	9.9	1.0	-
INSOLVENCIES				
PERCENT CHANGE	6.3	14.8	-	-
TOTAL	838	906	-	-

(1) UNLESS INDICATED OTHERWISE

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Message Attributes

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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770221-0838
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770637/aaaabgak.tel
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Locator: TEXT ON-LINE, ON MICROFILM
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